

ABSTRACT

PUBLIC ADMINISTRATION

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B.S., Alabama State University, 1982

A Critical Examination of Selected Abuses in the Minority Business Enterprise Program: A Case Study of the Federal Highway Contracts in Georgia.

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Degree Paper dated July 25, 1986

The primary intent of this paper is to critically examine and discuss selected abuses in the Minority Business Enterprise Program of the Federal Highway Contracts in Georgia. An attempt has been made to describe the certification process associated with fulfilling the eligibility requirements of the Minority Business Enterprise Program in order for minority contractors to obtain federal highway contracts. In addition, the study also examined the merits and demerits of the proposal by the U. S. Commission on Civil Rights under the leadership of Clarence Pendelton to dismantle the minority set-aside program.

This program is significant for several reasons: (1) it provides opportunities to minority contractors to participate in an area (i.e. federal highway contracts) which they have historically been denied access, (2) the program also offers minority contractors the opportunity to gain a much needed practical experience in a major sector of federal transportation activities, and (3) it sets aside a pool of money (specifically 10 percent of all federal highway contracts)

targeted for only female and minority contractors.

The study revealed that, in spite of the eligibility requirements, some unscrupulous majority contractors have been able to obtain federal highway contracts by forming nonbonafide partnerships with minorities and through falsification of documents.

The main sources of information were from interviews and newspapers, especially the Atlanta Journal and Constitution, the Wall Street Journal, as well as the U. S. Department of Transportation's publications. Also, a wide variety of secondary information, including books, periodicals and unpublished materials was used.

Limitation of Study

The writer was unable to gain the cooperation of the majority and minority contractors to respond to questions about the abuses in spite of the fact that they were promised anonymity.

A CRITICAL EXAMINATION OF SELECTED ABUSES IN THE
MINORITY BUSINESS ENTERPRISE PROGRAM: A CASE
STUDY OF FEDERAL HIGHWAY CONTRACTS IN GEORGIA

A DEGREE PAPER
SUBMITTED TO THE FACULTY OF ATLANTA UNIVERSITY
IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR
THE DEGREE OF MASTER OF PUBLIC ADMINISTRATION

BY
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DEPARTMENT OF PUBLIC ADMINISTRATION

ATLANTA, GEORGIA

JULY 1986

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I. INTRODUCTION

The Minority Business Enterprise Program or MBE is designed to provide federal financial assistance to Blacks, Hispanics, Asian Americans, American Indians and other members found to be economically and socially disadvantaged. The minority group members must have control over management, interest in capital and in significant earnings of the firm. The minority firms must also perform significant work or services, provide supplies under their control and are not to act merely as a funnel. When these conditions are not met, then a minority firm becomes a nonbonafide entity. These firms are expected to meet specific standards outlined by the Department of Transportation (DOT) for the certification process.

These standards include:

1. A bonafide minority group membership should be established on the basis of the individual's claim that he is a member of a minority group and is so regarded by that particular minority community.
2. The enterprise should be an independent business. The ownership of control must be real, substantial and continuing. States must consider all relevant factors (i.e., date the business was established, the degree to which financial, equipment leasing and other relationships with non-minority firms vary from industry practice).
3. Minority owners should possess the power to direct the management, policy operation of the firm. There should be no restrictions by law provisions, partnership agreement or charter requirements for cumulative voting rights that prevent the minority business from making a business decision.
4. All securities which constitute ownership and/or control of the corporation should be held directly by minorities.

5. Contributions of capital by the minority firm should be real and substantial. Insufficient contributions include a promise to contribute capital, a note payable to the firm, etc.¹

In spite of the guidelines and certification requirements outlined by DOT, "front" firms have been able to obtain certification as minority firms. The individuals used by non-minorities to organize front businesses, include sponsoring a female, former or current minority employees or a corporate spinoff, which owns the firm on paper, but in actuality has little or no management or control of the business.

Many cases nationwide and even in the State of Georgia have revealed numerous abuses in the highway construction projects. Illegitimate firms have provided false statements to obtain millions of dollars from federal taxpayers. Since 1982, approximately ninety-five million dollars in federal highway jobs have been awarded to minority contractors certified by the Georgia Department of Transportation (DOT) as "socially and economically disadvantaged." As a result, the ninety-five million dollars of available federal highway jobs invited the opportunity for "fronts" and "shams." The definition of the MBE sometimes made it difficult to determine who was disadvantaged and who was not. For example, a white male once said that his ancestors were Indians and that qualified him as part Indian.² Many MBE construction companies lacked experience or do not have enough equipment for the

¹U.S. Department of Transportation, "Original Rules and Regulations," Federal Register 45, 31 March 1980, p. 21189.

²"Highway Program Pave Way for Abuse," The Atlanta Journal and The Atlanta Constitution, 18 August 1985, pp. 10-A/12-A.

federal jobs (contracts) that they are assigned. As a result, whites team up with blacks to enter into federal contracts.

In view of the numerous abuses uncovered in the MBE program throughout the nation, Clarence Pendelton, Chairman of the Civil Rights Commission recently suggested in a draft report to the commission that the program should be dismantled after a year's moratorium. The purpose of this study, therefore, is to critically examine the impact of these abuses in the program and offer recommendations for the improvement in the administration of the program. In addition, the study examines the merits as well as the demerits of the proposal which was put forth by the U. S. Commission on Civil Rights to discontinue the minority set-aside program.

II. THE PROBLEM AND ITS SETTING

Agency and Unit Description

Prior to passage of the Inspector General Act of 1978, the public was becoming increasingly aware that fraud, abuse, and waste were becoming serious problems in the operations of federal departments and agencies.

The Inspector General Act of 1978, was signed into law on October 12, 1978. The Act created twelve independent Inspector Generals to serve within the Executive Branch of government to perform these operations: (1) conducting and supervising audits and investigations, (2) promoting economy, efficiency, and effectiveness, and (3) preventing and detecting fraud. The Act also established the means for keeping the head of each affected organization and the Congress fully and currently informed of problems and deficiencies in the administration of programs and operations.

The Inspector Generals who are appointed by the president, with the advice and consent of the Senate are subject to the Hatch Act. In the DOT, the Inspector General reports to the Secretary of Transportation; if this authority is delegated, the Inspector General reports to the officer next in rank below the head of the department. The Inspector General is assisted by an executive staff consisting of three assistants in charge of (auditing, investigations, policy, planning and human resources) and a director of special programs and evaluations.

In accordance with the laws and regulations governing the civil

service, the Inspector General is directed to appoint an assistant Inspector General for auditing and an assistant Inspector General for investigations. The Inspector General is also authorized, subject to certain provisions of the U. S. code, to select, appoint, and employ other officers and employees as necessary to carry out the functions, powers, and duties of the office.

The Office of the Inspector General (OIG) was established in the Department of Transportation (DOT) on February 25, 1979, when Secretary Adams signed a Determination Order. On May 10, 1979, DOT's first Inspector General, Frank Sato, was appointed by President Carter.

The OIG is responsible for the conduct and supervision of audits and investigations relating to the programs and operations of DOT. The Department, which consists of the Office of the Secretary (OST) and eight organizational elements, operates on a decentralized basis with seven administrators and a Coast Guard Commandant reporting directly to the Secretary. The Office of the Secretary is responsible for policy formulation, interagency and intradepartmental coordination, resource allocation, program evaluation, and matters of an "inter model" nature which require integration and balancing of model interests. The administrators are organized basically by the transportation mode, and their programs include highway planning and development; aviation; rail and highway safety; mass transit improvement; maritime safety; law enforcement and transportation; oil and gas pipelines; the operation of the St. Lawrence Seaway; and research and development programs in all fields of transportation.

These programs and operations, with a funding level of over twenty billion dollars annually are performed by DOTs 110,000 employees nation-

wide. In terms of resources, the Inspector General Act officially transferred to the OIG, the audit and investigations resources from seven predecessor organizations: internal audits and criminal investigators from the Federal Highway Administration (FHWA) and Federal Aviation Administration (FAA), and grant auditors from the Urban Mass Transit Authority (UMTA). The staff of nearly 500 hundred people are dispersed throughout the United States, but is headquartered in Washington, D. C.

The investigative functions currently consist of a headquarter operation and field units at five regional locations. The Office of Investigation Operations, at headquarters, conducts investigations with the purview of the Act and develops and administers the DOT Hotline Complaint Center. Also located in headquarters, the Office of Special Assignments conducts complete, multi-region or sensitive investigations.

The audit operation provides all services for DOT, either by directing its own audit resources or providing oversight for audit work done by others. Audits, under the direction of the assistant Inspector General for auditing are done in accordance with standards established by the Comptroller General of the United States.³

The Internship Experience

The writer served as a Graduate Student Trainee (criminal investigator) on the Graduate Cooperative Education Program from August 1985 to January 1986 in the Regional Office of Inspector General, U. S. Department of Transportation. The Atlanta Regional Office is staffed with six criminal investigators, one special agent in charge of investigations,

³U. S. Department of Transportation, Office of Inspector General, An Introduction to the Office of Inspector General (Washington, D.C.: Headquarters Office 1981), pp. 3-19.

thirty auditors and one special agent in charge of auditing. In addition, the Region IV covers Alabama, Georgia, Mississippi, Florida, South Carolina, North Carolina and Puerto Rico.

During training, the writer worked under the general direction of a senior level criminal investigator, performing specific investigative assignments of programs and operations of the Department of Transportation (DOT). These investigations involved alleged violations of Title XVIII, of the United States Code, including fraud, false claims and statements, bribery, conversion, embezzlement, conflicts of interests, collusion, kickbacks, and violations of other federal statutes covering corruption, fraudulent or other criminal activities.

In addition, the writer understudied senior level criminal investigators and personally conducted interviews with employees, officials in and out of the government as well as other individuals for the purpose of verifying facts and obtaining specific pieces of information. Moreover, the writer conducted record searches, examined documents and extracted pertinent investigative data, researched laws, regulations and operating directives in order to gain familiarity with the programs and operations of DOT. Above all, the writer participated in surveillance activities with senior level criminal investigators and performed developmental assignments related to investigative activities.

Statement of the Problem

As previously stated, the Minority Business Enterprise Program or MBE is designed to provide federal financial assistance to Blacks, Hispanics, Asian Americans, American Indians and other members found to be economically and socially disadvantaged. The problems to be addressed resulted from meeting the specific certification requirements by firms.

Since most of these firms are not bonafide minority firms, they qualified for the program by using fraudulent means, such as establishing fronts and phony partnerships. In addition, some of these firms obtained certification by falsifying documents. Part of the reason for these problems is the fact that minority firms have historically been denied participation in federal highway contracts. As such, they lack the necessary experience to handle projects of that magnitude. Equally important, is the fact that most minority firms do not own the specialized equipment needed to undertake these projects. In order to win these lucrative federal highway contracts therefore some minority contractors entered into dubious business arrangements with white firms. Clarence Pendleton points to such arrangements as one of the reasons for calling for the dismantlement of the set-aside program.

III. THE EVOLUTION OF OF THE MBE/DBE PROGRAM

Executive Order 11246

Under Executive Order 11246, minority contractors started to gain access to federal highway contracts as a result of presidential interventions. The order requires government contractors and subcontractors to refrain from discrimination on the basis of an employee's or applicant's race, color, creed, sex, religion, or national origin and to take affirmative action to ensure that applicants are employed and treated during employment without regard to their race, color, religion, sex, or national origin. Executive Order 11246 further requires all companies to be subject to its provisions and file compliance reports with the government. These reports must provide information relative to companies general employment practices and programs, along with some statistical data.⁴

Provisions for "nondiscrimination" in public contracts present few constitutional issues. In fact, they reinforce the requirements of the fifth and fourteenth amendments as well as congressional statutes designed to effectuate those constitutional provisions. Presidents have issued many executive orders mandating contract provisions for nondiscrimination in public contracts. But, like the Ten Commandments, their promulgation was more noteworthy than adherence.

⁴Fred Foulkes and Robert Livernash, Human Resources Management. (New Jersey: Prentice-Hall, Inc., 1982), p. 51.

Somewhere along the way, nondiscrimination gave way to the affirmative action mandate. No longer would mere signatures or promises on contract documents be sufficient. Affirmative proposals with monitored achievement goals were the new order of public contracting. The Affirmative Action Program (AAP) was designed to redress the lingering efforts of past discrimination and necessarily gave rise to significant constitutional questions.⁵

The Equal Employment Opportunity Program in MBE

Equal Employment Opportunity (EEO), Affirmative Action, the MBE and the Disadvantaged Business Enterprise (DBE) programs all have a common origin in Executive Order 11246. As early as 1941, President Roosevelt under the Warpower Act ordered that provisions of nondiscrimination be included in all federal defense contracts. The rationale was that nondiscrimination would ensure a large workforce during the war-time efforts.⁶

This order expanded the 1941 edict to apply to all federally assisted construction contracts and mandated that contractors and subcontractors take affirmative action to ensure that no applicant for employment was discriminated against by reason of race, color, religion, sex or national origin. The Department of Labor was made responsible for the administration of the Equal Employment Opportunity program and was authorized by President Nixon to adopt rules and regulations necessary

⁵"Anti-Discrimination Obligations in Government Contracts," George Washington Law Review 44 (1969): 590.

⁶Jim Levinson, "The Philadelphia Plan, A Study of Preferential Treatment: The Evaluation of Minority Business Enterprise Assistance Program," George Washington Law Review 61, (1980), p. 3.

to implement the terms of the order. This new obligation of affirmative action was obviously something more than a prohibition against discrimination. It called for the establishment of goals and the monitoring of achievement.⁷

This developed into the establishment of several AAPs by various communities which received approval of the Department of Labor. These became known as "hometown plans" named individually after the city of origin, such as the "Philadelphia Plan."⁸

Each bidder on a federally assisted contract was required to submit an affirmative action plan with a schedule of goals to be achieved in employing minority workers for several trades involved in construction. Each AAP had to receive Department of Labor approval before the lower bidder could be awarded the contract. However, a convenient alternative developed whereby the bidder or specification's could incorporate any of the several "hometown plans" approved by the Department of Labor for the community involved.⁹

Hometown plans were frequently referred to as tripartite plans involving the contractors, the unions, and the minority community. The concept was that if the three groups could come together to work cooperatively to eliminate discrimination, the problem would eventually be solved. The U. S. Department of Labor only established goals and timetables for those geographic areas without hometown plans. A contractor who participated in an approved hometown plan did not need to

⁷Ibid.

⁸Ibid.

⁹Ibid.

meet the specific goals as long as he accepted referrals from the hometown plan committee.¹⁰

The effectiveness of the affirmative action provision incorporated into the EEO plan depended upon the ability to change the exclusionary practices of the various unions regarding membership, referrals, recruitment and apprenticeships. The success of hometown plans, therefore, depended in large part upon the ability of the community leaders to work with the unions and the local contractors associations to obtain mutual concurrence in a plan acceptable to the U. S. Department of Labor.¹¹

Enforcement was and remains largely dependent upon payroll audits and audits of various reports filed by contractors and union regarding ethnic employment and not absolutes. Thus, a contractor is given an opportunity to demonstrate that every good faith effort was made to achieve the goal even if he failed to do so.¹²

Affirmative Action Program

According to Fred Foulkes and Robert E. Livernash, authors of Human Resources Management, in the Office of Federal Contract Compliance Programs (OFCCP) regulations, any contractor or subcontractor with at least fifty employees and a federal contract of at least \$50,000 in value must develop a written AAP within 120 days of the commencement of the contract. Revised Order No. 4 specifies that an acceptable AAP must include an analysis of areas in which the contractor is deficient in his utilization of minority groups and females, along with the

¹⁰Ibid.

¹¹Ibid.

¹²Ibid.

establishment of good faith efforts to correct these deficiencies. The purpose of such reviews is to determine if there is any "underutilization." Underutilization is broadly defined as having fewer minorities or women in a particular job group than would be reasonably expected by their availability.¹³

Advent of the Minority Business Enterprise Program

The EEO program was designed to promote affirmative action in the employment of construction workers. Affirmative action for minority and women owned businesses in construction developed more slowly than EEO, but had more dramatic impact upon industry, state and local government.¹⁴

As a result of the inability of minority businesses to obtain federal contracts, the Carter Administration established a comprehensive and complex MBE/Women Business Enterprise Program (WBE) for all contract recipients of federal transportation funds administered by the U. S. Department of Transportation on March 21, 1980. In spite of the noble intent of this program to help minority businesses, this program has been abused in Georgia as well as the rest of the country.

Definition of MBE

According to the Code of Federal Regulation, U. S. Department of Transportation (DOT) "minority" means a person who is a citizen or lawful permanent resident of the United States and who is:

¹³Foulkes and Livernash, Human Resources Management, p. 53.

¹⁴Levinson, "A Study of Preferential Treatment: The Evaluation of Minority Business Enterprise Assistance Programs," p.3.

1. Black (a person having origins in any of the black racial groups of Africa);
2. Hispanic (a person of Spanish or Portuguese culture with origins in Mexico, South or Central America, or the Caribbean Islands, regardless of race);
3. Asian American (a person having origins in any of the original people of the Far East: Southeast Asia, the Indian Subcontinent, or the Pacific Islands);
4. American Indians and Alaskan native (a person having origins in any of the original people of North America);
5. Members of other groups, or other individuals, found to be economically and socially disadvantaged by the Small Business Administration under section 8 (a) of the Small Business Act, as amended (15 U.S.C. 637 (a)).¹⁵

Minority Business Enterprise (MBE) means a small business concern, as defined pursuant to section three of the Small Business Act and implementing regulations, which is owned and controlled by one or more minorities or women. The definition applies only to the financial assistance program.

Non Minority Firms Take Advantage of the Set-Aside Program

On Wednesday, April 3, 1985, the Wall Street Journal revealed that last spring, Charles Sanders, owner of a small Pittsburgh construction company, got an offer he should have refused. Another company would do \$50,000 of demolition work on a highway project. Mr. Sander's company would get 10 percent of that for doing nothing more than altering his books to show that the names of the other company's crew appeared on his payroll. This transaction makes economic sense only if it is understood that Mr. Sanders is black and the other company is owned by whites and that most of the \$50,000 came from a federal highway

¹⁵U. S. Department of Transportation, Code of Federal Regulations, Series No. 49, 1980, p. 113.

administration program.

Over the past two years, the Federal Highway Administration (FHA), an agency of the U. S. Department of Transportation, has spent two billion dollars of federal money under two programs designed to aid "disadvantaged business enterprises" owned either by minorities or women. Federal and state investigators are discovering widespread abuses in these programs. The abuses involve companies with names such as Root Contracting Company and LeFemme Construction Company. Among those most upset by the irregularities are those business people who are supposed to be helped. After Mr. Sanders' deal was uncovered by Pennsylvania investigators, he admitted that he made a stupid mistake. Even though he took advantage of the law, he said he was not happy because his action contributed to a white-owned business contractor using him as a front.¹⁶

The law which made it possible for Mr. Sanders to be used as a front is the Surface Transportation Assistance Act of 1982. It earmarked 10 percent of the seventy billion dollars to be raised for highway construction and mass transit over four years by an increase in the gasoline tax, and directed that states use it to contract with small businesses owned and controlled by socially and economically disadvantaged individuals. States that do not meet the 10 percent goal risk losing federal highway money.¹⁷

The Reagan Administration speaks glowingly of the program in its press releases. For example, one of the administration's press releases

¹⁶"Bogus Minority Firms Take Advantage of the Set-Aside Program." The Wall Street Journal, Wednesday, April 3, 1985.

¹⁷Ibid., p. 33

stated that: "Minority owned and other economically disadvantaged business enterprises (DBE) continued to make strong gains in highway and mass transit programs during the six months of the fiscal year 1984." 18

On the other hand, Secretary of Transportation, Elizabeth Hanford Dole admitted that the MBE/DBE is not exceeding the program goals of giving 13 percent of all highway contracts containing federal money to 91,246 minorities.¹⁹ However, Ray Barnhart, an official of the Federal Highway Administration conceded that the programs were extremely difficult to administer and maintained that the department was mounting a campaign to help states eliminate fronts.²⁰

Barnhart also complained that companies found to be operating as fronts were not disqualified from the program, penalties were not imposed and recovery of contract money was not sought, and so far, no company has been prosecuted for federally aided highway work. In addition, Barnhart maintained that he did not believe that there has been a major loss of value in the programs, but he was of the opinion that people had received benefits to which they are not entitled.²¹

¹⁸Reagan Administration press release cited in John J. Fialka, "Phony Firms ' Riddle U. S. Program Set Up to Aid Minority Contractor," The Wall Street Journal, 3 April 1985, p. 33.

¹⁹Elizabeth Hardfort Dole, Secretary of Transportation, cited in John J. Fialka, "Phony Firms Riddle U. S. Program Set Up to Aid Minority Contractor," p.33.

²⁰Ray Bainhart, An Official of Federal Highway Administration cited in Fialka, " Phony Firms Riddle U. S. Program Set Up to Aid Minority Contractor," p.33.

²¹Ibid., p. 33.

State officials were less charitable, for example, Bruce K. Domon, Inspector General of the Pennsylvania Department of Transportation, stated that "this program invites fraud."²² During a recent hearing before a Pennsylvania commission which investigated charges of malmission which investigated charges of malpractices in the program. Mr. Domon produced Ruby Thomas, a black woman who testified that her company, which owns one truck, never appeared at a Wilkes-Barre project which the company supposedly did \$111,000 worth of hauling. Instead, a white contractor arranged to lease his trucks to Ms. Thomas. He even brought new magnetic signs for trucks with the name of Ms. Thomas's company on them. She then hired a subsidiary of the white company to drive the trucks. Her share of this deal was \$3,000.²³

Mr. Domon is not the only skeptic of the program. The Inspector General of the U. S. Department of Transportation Department recently examined seventy cases in eight states involving federal highway money that went to supposedly minority contractors or to women-owned contracting companies. It found 48 percent of the companies to be potential front and concluded that the programs accomplishments had been significantly overstated.²⁴

The study found that this problem also exists in the State of New York. The New York State's Commission of Investigations has found widespread abuses in the program. One black man in Syrucuse, Emanuel Henderson, allegedly named seven companies that were used as fronts

²²Bruce K. Domon, An Inspector General of the Pennsylvania Department of Transportation cited in Fialka, "Phony Firms Riddle U. S. Program Set Up to Aid Minority Contractor", p. 33.

²³Fialka, "Phony Firms Riddle U. S. Program Set Up To Aid Minority Contractor", p. 33.

²⁴Ibid., p. 33.

by white contracting firms doing business on federal or state projects. The commission's report indicated that Mr. Henderson normally received a 5 percent commission, in spite of the fact that he denied the allegations.²⁵

The same problem was also uncovered in the State of Wisconsin. Wisconsin disqualified four phony companies that had done some \$5.5 million worth of business in 1984, which represents roughly a third of the state's minority highway contracts. This particular act hurt the state's effort in meeting the federal goals.²⁶

The Administration of Federal Highway Contractors
for Minority Firms in Georgia

The State of Georgia administers its federal highway program by setting goals for minority participation in all federal highway projects. The State's goals are influenced by the 10 percent requirement set by the Federal Highway Administration in order for the State to be eligible for federal highway funds for the next fiscal year.

The State has a list of all certified minority contractors who are asked to submit bids on all federal highway projects usually as sub-contractors.²⁷

Robert Bradley, the DBE Coordinator, Georgia Department of Transportation, revealed in an interview that there are various problems associated with the certificate process. The main problem, however, is the inability to determine through the application review process

²⁵Ibid., p. 33.

²⁶Ibid., p. 33.

²⁷Interview with Robert Bradley, Coordinator of DBE Program, State of Georgia, Atlanta, GA., 25 April 1986.

if a firm is truly a bonafide minority entity. This is due to the fact that all the question are answered correctly on paper. However, he maintained that it is through the on-site visits that investigators are usually able to determine the illegitimate minority firms.²⁸

²⁸Ibid.

IV. METHODOLOGY

This study is basically a descriptive analysis of situations and events. These situations and events resulted in the violation of the major provisions of the MBE program.

Primary Data Collection Techniques

The primary data were mainly collected from participant observation. During the internship, the writer traveled to various states to engage in investigations of violations of federal highway contracts. In the course of these activities, the writer gained some insights into the abuses in the MBE/ DBE program. In addition, the writer interviewed John Parris, President of John Parris Minority Contracting Company to solicit his opinion on the program. This individual was selected because of his vast reservoir of knowledge about the program.

Secondary Data Collection Techniques

The main sources of secondary data came from newspapers, studies, federal, state and local government reports.

Limitation of the Study

The writer was unable to gain the cooperation of the majority and minority contractors to respond to questions about the abuses in the program in spite of the fact that they were promised anonymity.

V. ANALYSIS OF THE PROBLEM

Like most government programs established to address the needs of specific targeted groups, there are always some individuals who are not members of the targeted populations but always manage to violate the law to receive benefits. Similarly, the abuses in the federal highway contract program for minorities and women discussed in this section of the study occur in the same fashion.

Exploitation of Minority Set-Aside Program

An article in the Atlanta Journal and the Atlanta Constitution indicated that many contractors profit from laws intended to aid minority businesses. Since 1982, about ninety-five million dollars in federal highway jobs have been awarded to minority contractors certified by Georgia Department of Transportation as socially and economically disadvantaged. However, some of the beneficiaries of these awards are not genuinely minority firms. The following are some of the selected examples:

- a young Cuban millionaire began work on one of Georgia's largest minority contracts a month after he was indicted in a federal drug smuggling case;
- an established Florida contractor qualified as an American Indian by citing his membership in a now defunct Georgia "tribe" run by a gospel singer;
- an internationally known engineering company whose founder is a professor emeritus at the University of California won a contract as a minority firm; and

- a black lawn-service operator from Florida whose Atlanta dump truck company is run by a white "project manager," the owner stays in Florida, to keep up his grass cutting businesses.

Each of the individuals cited above all qualified to participate in a government affirmative action program that requires that at least 10 percent of federal constructions in each state go to "disadvantaged business enterprises," defined as companies owned and controlled by Blacks, Hispanics, Asians or Native Americans.²⁹

Written into federal law in 1982, the program was intended to spurt the development of minority businesses in an industry with a long history of racial discrimination. Locally, it has meant that minority contracts worth sixty-four million dollars have been awarded as part of Atlanta's \$1.3 billion freeing the freeway campaign.

During a two-month review of these awards and the sixty companies that receive them, a number of success stories emerged. However, the program's performance in Georgia has rarely matched its intent. Abuse has become endemic and enforcement is lax. For example, Jasper Construction Company, the largest white contracting firm working on Atlanta's expressways, has over the past year and a half awarded the bulk of its minorities subcontracts to two dump truck companies.³⁰

One of the companies was managed by a wealthy Cuban immigrant; the other is "owned" by a black lawn service owner who never operated a trucking company before and is not running one now. He lives in Florida.

²⁹"Highway Program Pave Way for Abuse," The Atlanta Constitution, 18 August 1985, pp. 10A-12A.

³⁰Ibid.

This article maintained that the story of FJF Trucking and WJD Enterprises goes to the heart of the weakness plaguing the minority business program. Jasper Construction Company declined to comment on any of its minority subcontractors.³¹

Falsification of Documents

Another way in which firms are able to obtain federal highway contracts is to misrepresent the extent of minority involvement in their activities in order to meet eligibility requirements. The case of Jasper Construction Company is a classic example.

On Friday, May 24, 1985, the Atlanta Journal reported that Jasper Construction Company, which was a prime contractor on the Downtown Connector, was barred for a year from working on federal contracts and was fined \$25,000 as a part of a plea bargaining agreement on federal fraud charges.

Jasper and three other construction firms have been the subject of an eight count fraud indictment handed down by the U. S. District Court for the Northern District of Georgia in connection with a two million dollar contract for Atlanta sewer construction related to improvement on the downtown connector. The project was funded by the U. S. Department of Housing and Urban Development and the U. S. Department of Commerce. Jasper already has completed the construction work involved in the case.

Charges were brought against three former employees of Jasper, an Atlanta based, wholly owned subsidiary of S. J. Grover and Sons of

³¹Ibid.

Minneapolis as well as the owners of Forts Backhoe, a construction company in Atlanta, Pioneer Construction Company of Atlanta, and Orr Construction of North Carolina. Six or seven men connected with these firms pleaded guilty to making false statements to Housing Urban Development and the City of Atlanta about the extent of minority involvement in the connection with the contracts.³²

According to a city and federal investigation, the firms falsified documents to indicate that they had met Atlanta's minority business guidelines, which guaranteed that a minority firm will receive at least 20 percent of a contract with the city.³³

Sentences were handed down in U. S. District Court against former Jasper employees, George King and Robbie See, both of Atlanta, Philip Orr, owner of Orr Construction, and Walter Johnson, owner of Pioneer Construction. Former Jasper employee Gobel Mattingly and William Forts, owner of Forts Backhoe were sentenced on July 3, 1985.³⁴

King was fined \$2,500; See was fined \$1,000, and Orr and Johnson were fined \$500 each. In addition, King was put on three years probation. Under the terms of the plea bargain, Forts, Mattingly and Orr were suspended for a year from bidding on HUD block grant programs.³⁵

The fines levelled against these contractors, in the opinion of this writer, are not commensurate with the crimes that they have committed. Above all, such a toothless penalty cannot deter any contractor who has obtained a substantial sum of money from previously awarded

³²"Contractors Fined, Barred from Working Federal Jobs," The Atlanta Constitution, 24 May 1985, p. 17A.

³³Ibid., p. 17A.

³⁴Ibid.

³⁵Ibid.

contracts.

False Access to Federal Highway Contracts

Another strategy used by firms to qualify for the federal highway program is to enter into phony partnerships with minorities. For example, Bill Anderson, a white businessman formed an illegal partnership with a black contractor. Realistically, Anderson appears to be an unlikely candidate for a government program designed to help socially and economically disadvantaged minority contractors. Besides being white, the prosperous Northside businessman owns the Capital Ford Truck Sales, one of the biggest truck dealerships in Georgia. However, with the help of a black partner, Anderson has access to federal highway jobs set aside for disadvantaged business enterprises.³⁶

Minorities are not the only people profiting from a program that was intended to help only them. Partnerships between black and white businessmen accounted for ten of the sixty minority companies doing freeway work around Atlanta, with fourteen million dollars in contracts - some 34 percent of all federal highway construction jobs go to minority firms. The Georgia Department of Transportation counts the money as if it had been earned by blacks.

Independent black constructors complain that they face unfair competition from such partnerships. Large construction companies are reluctant to award big jobs to all black subcontracting firms. Black contractors maintain that preference is given to companies allied with well established white businesses. Although these partnerships are possibly legal, and some contend, entirely defensible, they clearly

³⁶Ibid., pp. 10A-12A.

violate the intent of the programs which is to award federal contracts to bonafide minority firms as well as develop experienced minority firms.

How does one establish a qualified minority business enterprise when minorities can not get the capitalization necessary to put themselves into business? In responding to the question, Anderson asserted that "it takes an arrangement of sorts to have someone take the risk necessary."³⁷ The arrangements are often called "51-49" companies, because the standard practice is for the black partner to purchase 51 percent of the companies stock, giving him paper control. But it is not always easy to determine who is actually operating the business.

Bill Anderson is in partnership with Lucy Curry, a thirty year old black male contractor who was well established in highway construction. The two men own Curry Trucking, which specializes in hauling dirt and gravel to freeway construction sites.³⁸

Curry rents his office space from Adlease and the Forest Park trucking leasing firm owned by Anderson. Curry acknowledged that the firm's field supervisor is Gresham Robinson, a white man who works for Capital Trucking. Officials of Anderson's hauling company said that Curry Trucking acquired its forty tandem-axle dump trucks from Capital Ford at a price that they really would not sell them to anybody else. Both men have no doubts that Curry Trucking is meeting the spirit of the disadvantaged business program.

³⁷Ibid., pp. 10A-12A.

³⁸Ibid.

On the other hand, Curry stated that he does not think there is another MBE (Minority Business Enterprise) trucking company in the southeast that has a hands-off operation like they do, simply because he signs all the checks.³⁹ If the mere act of simply signing checks tantamounts to ownership of a company, then it seems that all business managers of companies throughout this nation can claim ownership of the businesses in which they work. However, what is so revealing and equally disturbing about Curry's statement is the fact that a minority contractor is an active participant in circumventing a law that is specifically designed to help minority group members.

Another tactic used by non-minorities to obtain certification and violate the intent of the program requirements is for individuals to make dubious claims about their ancestral origins.

Since this program is designed to help members of specific minority groups in the country, some contractors meet the eligibility requirements by making doubtful claims to memberships in one of those groups. The case of Joe E. Hill is a perfect example of how a white contractor qualified for the program by misrepresenting his ancestral origin.

Misrepresentation

Joe E. Hill of Leesburg, Florida, inherited his construction business from his father, who established it during the depression. He does specialty work, such as culverts and drains. When the minority enterprise program got underway in the mid 1970s, Hill set out to

³⁹"Highway Program Pave Way for Abuse," The Atlanta Constitution, 18 August 1985, pp. 10A-12A.

qualify as an American Indian. Hill said he is part white and part Cherokee, although he would not say how much of either, or both. He maintains that whatever proportion of his heritage that is white or Indian is unimportant. According to him, what matters most is the fact that his ancestors were Indian which qualified him partly as Indian.

Hill based his 1980 application for minority status in Georgia on a letter from Neal McCormick, a gospel singer from Cairo, Georgia, who had established the Lower Muscogee Tribe, East of the Mississippi, Inc. McCormick wrote that Hill was a certified member of the tribe's Tama State Indian Reservation in Cairo.

McCormick's organization was never recognized by the Federal Bureau of Indian Affairs. McCormick has since moved to Florida, his reservation is over grown with weeds, its buildings deteriorating, and his tribe is no longer active. Hill asserted that he decided to enter the minority business program because that is the only avenue opened to subcontractors these days to obtain any jobs or contracts.

Apart from the fact that Hill's claims are ridiculous, he was able to obtain federal contracts specifically set aside for bonafide minority contractors. More importantly, what is very disturbing about these violations is the federal government's impotence in taking drastic measures against these contractors who engage in these illegal acts.⁴⁰

A study by the U. S. Department of Transportation, Office of the Inspector General also highlighted another dimension of some of the problems encountered in satisfying the minority requirements.

⁴⁰Ibid., pp. 10A-12A.

A Vermont construction firm, certified as a combined DBE/WBE in Vermont and New Hampshire, is owned 25 percent by a male claiming American Indian ancestry, 25 percent by a male caucasian and 25 percent each by the wives of these two men. The firm was incorporated in 1977 with the two males each owning 50 percent of the stock. In 1980, stock ownership was changed to give their wives 25 percent each.

In 1983, this firm was decertified by the Vermont Agency of Transportation because neither the women nor the male minority had the 51 percent ownership required by 49 CFR 23. In a 1984 appeal decision, the Director of Civil Rights, Office of the Secretary of Transportation (OST), ruled in favor of the firm's minority status since over 51 percent of the stock was owned collectively by the minorities and women. The study indicated that not all information relative to this firm was known at the time of OST's decision, for example:

- the two women owners contributed neither capital nor expertise to the firm as required by 49 CFR 23.53 (a) (2);
- in 1983, one woman owner received \$1,140 in compensation for limited part-time work. The other did not work for the firm and received no compensation, but does work part-time for a federal agency. CFT 23.53 (a) (3) requires minority owner to demonstrate day-to-day control of the business activities;
- documentation on file does not support the disadvantaged status of the 25 percent male owner who claims Indian ancestry. The information provided only states that this individual is a member of an Indian tribe. This statement alone does not satisfy economic disadvantage, as required by 49 DFR 23.53 (a) (1), Appendix C of Subpart D, and an April 10, 1984 memo by the FHWA Director of Civil Rights; and
- one of the owners maintained that since most of the firm's work on highway projects was as a prime contractor, their DBE/WBE status was more advantageous to the state (in meetings its DBE/

WBE goal) than to the firm. He further stated that the firm had been encouraged to file a DBE/WBE application by state officials.⁴¹

The study concluded that this firm is still equally owned and controlled by the two original male owners, despite the change in stock ownership. Therefore, the firm is not eligible to participate in either the DBE or WBE programs.⁴²

What is so unfortunate about the Vermont case is the fact that these two white males were able to violate the law as a result of encouragement and support provided by state officials who are expected to enforce the law. It is reasonable to assume that state officials became willing accomplices in order to ensure the flow of federal highway dollars to their state. Since those states that fail to meet the federal goals will lose federal funds, state officials do take actions even if they are illegal in order to forestall such an eventuality.

Minority Contractor's Criticism of MBE Requirements

In an interview with John Parris, a black male contractor, he indicated that although the 10 percent set aside program assures minority contractors access to federal highway contracts, the set aside amount is not enough, especially during the first year of winning such an award. He was highly critical of the exceptions given to some states to waive the 10 percent requirement for minority contractors simply because those states argue that they cannot find qualified minority con-

⁴¹Office of Inspector General. "A Study by Office of Inspector General, U. S. Department of Transportation: Federal Highway Administration's Monitoring of the Disadvantaged Business Enterprise and Women Business Enterprise Programs in New England", Report Number R1-FH-4-105 (1984), p. 16.

⁴²Ibid., p. 16.

tractors in their respective states. He also strongly criticized the requirement of having minority contractors bonded by insurance companies. In his opinion, the premiums are very exorbitant and they pose serious cash flow problems for minority contractors.⁴³

Unlike the State of Florida, the State of Georgia does not have its own 10 percent set aside program for minorities. This situation therefore limits minority contractors to compete for only the federal money in highway contracts. The State of Florida, enacted its own Surface Transportation Act of 1982. As a result, in 1984, the State of Florida provided a total of seventy-seven million dollars as compared to the federally-mandated goal of thirty-five million dollars to minority firms.⁴⁴

In spite of the abuses in the minority set-aside program, the writer is of the opinion that if the State of Georgia were to enact its own set-aside program, it will benefit bonafide minority contractors. The Civil Rights Commission's Draft Report ON MBE/DBE

In view of the numerous abuses uncovered in the MBE program throughout the nation, Clarence Pendleton, Chairman of the Civil Rights Commission recently suggested in a draft report to the board to suspend the program that reserves contracts for businesses owned by Blacks, Hispanics or women for one year.

⁴³Interview with John Parris, John Parris Minority Construction, Inc., Atlanta, Georgia, 4 April 1986.

⁴⁴Florida Department of Transportation, "News Release", Release No. 85-130, 18 April 1985, pp. 30-31.

The 96-page report concluded: "we feel that minorities set asides have not, after many years, proven themselves effective, and we fear that significant reasons exist to judge them destructive."⁴⁵ The Rights Commission's draft report said the program has been marked by rampant corruption and fraud, has primarily benefited wealthier blacks and Hispanic employees, increased the cost of government procurement and led to financial hardship of bankruptcy for a significant number of businesses owned by whites. However, in order to suspend the program as the draft suggests would require the President to revise executive orders and Congress to amend existing laws.⁴⁶

As a result of the commission's April meeting, the staff was advised to rework the Minority Business Report. The commission did not specify what changes should be made. Several commissioners said that the panel should propose some positive alternatives if it wants to halt the set-aside programs, under which businesses owned by women and members of minority groups receive more than five billion dollars a year in government contracts.

Three of the eight commissioners expressed dissatisfaction with the draft report. However, the chairman of the Civil Rights Commission, Clarence M. Pendleton, Jr., strongly supported it. No deadline was set for completion of the next draft.⁴⁷

⁴⁵"Aide to Reagan Challenger Plan by Rights Panel," The New York Times, 11 April 1986, p. D-18.

⁴⁶"End Sought to Minority Set-Aside," The Atlanta Constitution, 8 April 1986, p. 6-A.

⁴⁷"Civil Rights Staff Told to Rework Minority Business Report," The New York Times, 12 April 1986.

Admittedly, acts perpetrated by unscrupulous contractors to subvert the good intentions of the MBE/DBE program cannot be condoned. However, to use the abuses in the program as the rationale to suspend it for a year cannot be a justifiable action. Besides such negative action will give cause for the subsequent complete elimination of all affirmative action programs. The mere fact that the U. S. Civil Rights Commission under the chairmanship of Clarence Pendelton, has detected flaws and abuses in the program is evident that the system is working and that given adequate supervision and monitoring, it could rid itself of phony "minority" contractors.

It has been argued that the MBE/DBE is a threat to white business and that the program encourages reverse discrimination. However, the purpose of the program is to ensure that there is fair, effective and proportionate numerical representation of all races and sex gender in the distribution of the national wealth in the business industry. As Rose Lauk Coser has clearly pointed out, "numerical goals are meant to get people in who do qualify for the main requirement for entrance, and who may be kept out otherwise for reasons that are not pertinent to the performance that is sought".⁴⁸

The lukewarm attitude by the Republican Administration to AAPs has induced its supporters in federal agencies to make recommendations or initiate policies which will gradually abolish AAPs. There is evidence that the Justice Department under Edwin Meese has initiated steps to reverse AAPs. Perhaps it is in fear of obvious retribution that the Pendelton's Civil Rights Commission report will have on the image of

⁴⁸"Rose Lauk Coser, "Affirmative Action: Letter to a Worried Colleague," Dissent Cited in Herbert M. Levine, Point Counter Point (Dallas, Texas: Scott, Foreman and Company, 1983), p. 118.

the Administration that Reagan's aide Larry Speakes, was quick to disassociate the administration from the commission's report. Hence, according to Speakes, "The Administration's position is that we support the minority set-aside program".⁴⁹

There is also ample evidence to suggest that not all of the officials of the Reagan Administration, as well as the members of the U. S. Civil Rights Commission are agreed on the proposals submitted by the latter. Francis Guess, the Tennessee State Commissioner of Labor, said he could not understand why the staff had drafted the 96 page report because the members of the Civil Rights Commission had never received a formal "project proposal" from the staff and had not voted explicitly to authorize such a study.⁵⁰

However, J. Al Tatham would argue that "no program that divides Americans along racial and ethnic lines should be maintained, now or after a moratorium."⁵¹ The U. S. Civil Rights Commission Draft Report certainly favors conservatives such as Tatham. But if fraud and ineffectiveness in promoting minority businesses are charges against the program, then the Commissioner should take his clue from what Representative Augustus F. Hawkins, a Democrat from California has said, "if there are abuses in the program, the administration has an obligation to eradicate

⁴⁹Larry Speakes, Press Secretary to President Reagan, cited in "Aide to Reagan Challenges Plan by Rights Panel," The New York Times, Friday April 11, 1986.

⁵⁰"Rights Staff Told to Rework Minority Business Report", The New York Times, Saturday, April 12, 1986.

⁵¹"Rights Panel to Revise Plan Supporting Supervision of Minorities Contract Aid," The Wall Street Journal, Monday, April 14, 1986, p. 19.

the abuses."⁵² It is therefore the view of the writer that to apply Equal Opportunity laws alone in this case is to fail to recognize the historical record of this country in which a section of the population (Blacks, Women, Hispanic and Indians), now classified as the minority was held in subjugation by the majority (white males for centuries). The fact that the conservative Nixon administration initiated the program and has since been maintained by succeeding administrations confirms its significance. Perhaps the abuses in the program have hurt some minority businesses and, even more so, some white businesses, but as R. L. Coser says, "every policy will hurt some people who do not deserve to be hurt."⁵³

The defense contracts in this country have been plagued by widespread corruptions and over charging, yet nobody has ever suggested that defense contracts should be dismantled. That being the case, why should the minority set aside programs be dismantled? What is actually needed is stricter enforcement and closer examination of applications that seek the status of minority firms.

⁵²"White House Assails Plan to End U. S. Aid to Minority Businesses," The New York Times, Friday, April 11, 1986, p. D-18.

⁵³Coser, "Affirmative Action: Letter to a Worried Colleague," p. 120.

VI. CONCLUSION AND RECOMMENDATIONS

Conclusion

The intent of the federal government's 10 percent set aside program for minority firms is very commendable. However, in the opinion of this writer, the abuses that are currently occurring in the program in the State of Georgia, as well as the rest of the nation are primarily due to the lack of close scrutiny in the certification process. But more importantly, it is the lack of imposition of severe penalty on those firms that have violated the law that has contributed to the present state of affairs. After all, what does a firm has to lose by paying a fine of \$10,000 or \$20,000 after it has illegally obtained a contract worth more than a million dollars? Unless the State of Georgia passes a law similar to those enacted in the states of Maryland and Pennsylvania,⁵⁴ which make illegal MBE/DBE practices criminal offenses with concomitant severe penalties, these contractors who operate fronts and shams as bonafide minority firms will not change their ways.

The sum total of these abuses in the MBE/DBE program is the adverse effect it has on genuine, legitimate, independent and bonafide minority firms. These firms are denied access to federal contracts because of the illegal practices by the fronts.

⁵⁴"Engineering News Records", Management and Labor, January 17, 1985, p. 59.

Recommendations

The following recommendations are offered to address the problem that DOT is currently facing with fronts, shams and falsification of documents in the MBE program in the State of Georgia. They are:

1. States should be required by DOT to develop and establish minority business support, such as training classes for minority contractors before the contract is awarded.
2. DOT and states should thoroughly do a background investigation on minority contractors in order to eliminate or reduce fronts, shams and falsification of documents.
3. DOT should encourage the states to impose penalties, such as debarment from participation in future contracts and long term sentences for violators.
4. DOT should set up a 24-hour MBE complaint hotline staffed for immediate investigation and penalty action.

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